



17555 PEAK AVENUE MORGAN HILL CALIFORNIA 95037

MORGAN HILL

FINANCE AND AUDIT COMMITTEE

Morgan Hill Civic Center
Administration Conference Room
17555 Peak Avenue
Morgan Hill, California

Chair
Committee Member
City Treasurer
Staff: Finance Director
Assistant Finance Director

Larry Carr
Steve Tate
Mike Roorda
Jack Dilles
Tina Reza

REGULAR MEETING

Wednesday, April 17, 2002

MINUTES

5:40 P.M.

CALL TO ORDER

Chair Carr & Commission Members Tate & Roorda; *Staff:* Dilles & Reza

DECLARATION OF POSTING OF AGENDA

In compliance with Government Code 54954.2

PUBLIC COMMENTS

The Morgan Hill Finance and Audit Committee welcomes comments from all individuals on any agenda item being considered by the Committee. In the interest of brevity and timeliness and to ensure the participation of all those desiring an opportunity to speak, comments presented to the Committee are limited to Three Minutes.

BUSINESS:

1. Approval of minutes for March 20, 2002.

The minutes for March 20, 2002 were approved.

2. Audit Plan for City's Independent Auditor, Caporicci & Larson, LLP (Discussion)

Steve Larson and Mark McGeady from Caporicci & Larson, LLP, the City's independent auditor, addressed the Committee regarding the scope of the next year's audit of the City's financial statements. Staff indicated to the Committee that this is an opportunity for Committee Members to provide direction to the auditors concerning any particular areas that the Committee would like the auditors to focus on during their audit. Staff then provided a brief overview of the different operational systems within the Finance department as background information and as a guide as to which areas the auditors might give more attention. Committee Member Roorda asked that one more look be given to cash control related to the move of the Finance Department from the main city Hall building to the Villas modular unit. Assistant Finance Director Reza asked that attention be given by the auditors to Recreation Department internal controls, since activities in that Department will be expanding.

Mr. Larson spoke about the requirements of GASB 34, which will require the City to make major revisions to the financial statements for the audit year 2002/03. He indicated that the City may want to consider a study session with the City Council on this subject, so that the Council would be more aware of the requirements, implications, and decisions that need to be made. Mr. Larson indicated that the auditors would be available to participate in such a study session. The decisions that need to be made include whether to depreciate infrastructure fixed assets or to report annually on the condition of those assets, what infrastructure assets to include in the financial statements, and what depreciation time frames to use. Committee Member Roorda asked the auditors if the 40 hours of additional audit services available each year under their contract with the City could be used to assist the City in implementing GASB 34 and Mr. Larson answered "yes."

3. Results of Transit Occupancy Tax Audit by MBIA MuniServices

Staff described the results of the transit occupancy tax (TOT) audit as described in the audit report included in the agenda packet. Following a long delay in the completion of the audit caused by the initial refusal of certain hotels to allow the auditors access to their records, the audit was finished. No evidence of under-reporting or under-paying the City were discovered. The auditors did have certain recommendations. They suggested certain changes to the tax return. Committee Member Roorda suggested that staff develop an electronic version of the tax return. While the Committee did not agree with all of their suggested changes, they did support some changes and directed staff to develop the following changes:

- 1) Indicate in the first line of the tax return that the rent reported should not include the tax paid.*
- 2) Add a line to the tax return that requires the hotel to state what dollar volume of rent was exempted from taxes because stays were longer than 30 days.*

In addition, the auditors recommended that taxes be collected monthly rather than quarterly, as allowed for under the City's TOT ordinance. Staff indicated that, based upon a \$1 million annual TOT collection and current interest rates, this would put approximately \$3,300 of additional interest earnings in the City's pockets each year and would better protect the City if a hotel went out of business. While feedback from Committee Members suggested that this savings was minimal, staff was directed to write to the hotels in town and ask them what they thought of monthly, rather than quarterly, reporting and payment, to gauge the level of additional work necessary on their part. However, this communication with the hotels would not occur immediately, since there are other issues affecting the hotels at the current time and it was agreed that a delay would be appropriate.

4. Financial and Investment Report for March 2002

Staff provided an overview of the monthly report. Committee Member Roorda observed that City departments appeared to be more than meeting their target budget reductions during this fiscal year and hoped that there would not be a spike in expenditures during the last part of the year.

5. Centralized Purchasing

The Finance Director distributed a schedule that supports staff's previous conclusion that the cost of hiring a purchasing agent to oversee centralized purchasing would exceed the potential savings realized from bulk purchases. The Committee accepted staff's recommendation to keep a decentralized purchasing system.

6. Future Agenda Items

None

ADJOURNMENT

NOTICE

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